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ABSTRACT

In the past two decades, corporate social responsibility has become a controversial issue which is usually responded to according to the management style of individual corporations. Three concepts of management style have developed. Profit maximization considers that money and wealth are most important, labor is a commodity to be bought and sold, and management accountability is to the owners. Trusteeship management is characterized by beliefs that money is important but so are people; labor has certain rights; and management accountability is to owners, employees, customers, and other contributors. Quality of life management is concerned that people are more important than money; employee dignity has to be satisfied; and management accountability is to owners, contributors, and society. Accordingly, technological, environmental, and aesthetic values differ greatly among management styles. Arguments for corporate social responsibility include long-run self-interest, public image, avoidance of government regulation, sociocultural norms, stockholder interest, and predictive prevention. Arguments against are limitation of profit maximization, costs of social involvement, lack of management's social skills, business's possession of too much power, lack of accountability, and dilution of business's primary purpose. Research indicates a positive relationship between a company's social and economic performance. (KC)

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# The Corporate Value and Social Responsibility

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Profit making is the very center of the purpose of business in the United States. Beyond all other factors, the essence of business has been to produce and distribute goods and services with the goal of having income exceed costs.

In the last two decades, social responsibility has become the theme increasingly directed toward business by civil rights activists, consumerists, concerned citizens, and business people. Social responsibility is a broad concept, encompassing a wide range of activities from equal employment opportunity to the culture and arts of the community. Such areas deal not only with the question of measuring profitability of social responsiveness, but also with whether social responsibility can be in opposition to sound management practice. It is important that attempts be made to identify current practices and make corporation leaders, the customers, the employees and the general public aware of any needs existing between these practices and stated intents about social responsibility.

## The Corporate Social Responsibility

There are three concepts in business and academic circles concerning business management's social responsibility. One is the traditional view that the only responsibility of management is to maximize the profits of its shareholders. The origin of this view may be found in Adam Smith's Wealth of Nations, in which he proposed the best way to achieve social goals. He suggested that even though individuals exert themselves for their own capital advantages, society necessarily also benefits. Smith contended:

> By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this as in many other cases, led by an invisible hand to promote an end which was not part of his intention.

[1] Smith, Adam. "Wealth of Nations," as quoted in E. Bakke, et al., eds., Unions Management and the Public, (New York: Harcourt, Brace, and World, Inc., 1975), p.22.

Unintentional promotion of society with the actual intent of pursuing one's own interests can be more effectual, Smith asserted. "I have never known much good done by those who affected to trade for the public good."[2]

Smith's economic values have had an important influence on American business thinking. The profit maximizing management view is still held by the classic school of economic thought, particularly by Milton Friedman and the so–called Chicago School of Economics. The classic approach maintains that social problems are not the direct concern of businesspersons and that such problems can be resolved by the free workings of the impersonal market mechanism. If the market mechanism cannot satisfactorily resolve social problems, then the solution should be achieved through legislation. This philosophy argues, for example, that minority groups should be hired for those jobs for which their skills are best suited and at the wages prevailing for those jobs. If this system does not work, in the sense that employment cannot be found at any wage, however small, then legislation should be used to correct the situation. Related to the profit maximization concept is the right or power assumed by the owners and managers to operate the organization as they deem appropriate with the sole objective of profit maximization. A statement by Friedman makes this point clear. He explained that the only responsibility of the business is:

> . . .to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud . . . Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. [3]

The second approach is that corporate social responsibility is really a reflection of the personal value of the manager. This viewpoint, which has been labeled the trusteeship concept, emerged in the 1920's and 1930's. According to this concept, corporate managers were responsible not

[2] Ibid., p. 22.

[3] Friedman, Milton, Capitalism and Freedom, (Chicago: University of Chicago Press, 1962), p.6.

simply for maximizing the stockholders' wealth, but also for maintaining an equitable balance among the competing claims of customers, employees, suppliers, creditors and the community. In this view the manager was seen as a "trustee" for the various contributor groups related to the firm rather than simply as an agent of the owners. [4]

The increasing diffusion of ownership of American corporations, through share purchase and the development of a pluralistic society were the two structural trends responsible for the emergence of this broader view of social responsibility. The extent of the diffusion of stock ownership may be seen by the fact that, by the early 1930's, the largest stockholders in corporations such as American Telephone and Telegraph, United States Steel, and the Pennsylvania Railroad owned less than one percent of the total shares outstanding of these companies. Similar dispersion of stock ownership exists in most other larger corporations. In such situations, management remained firmly in control of the corporation, except in rare circumstances. The top executives were able to perpetuate themselves in office through the proxy mechanism. If an individual shareholder was not satisfied with the performance of the firm, he or she had little recourse other than to sell his or her stock. Hence, although the stockholder's legal position was that of an owner, and thus a principal–agent relationship existed between the stockholder and managers, his or her actual position was more akin to that of a bondholder and other creditors of the firm. The question as to whom the management was responsible was unanswered by the "trusteeship" concept.

The "trusteeship" concept was reinforced by the emergence of a largely pluralistic society. A pluralistic society has been defined as "one which has many simi–autonomous and autonomous groups through which power is diffused. No one group has overwhelming power over all others and each has direct or indirect impact on all others."[5] It can be logically concluded that

4 Bowen, R. H., and W. T. Greenwood. Business Management: A Profession. (Boston: Houghton–Mifflin, 1971).

5 Steiner, A. G. Business and Society. (New York: Random House, 1971), p. 71.

management's task is to reconcile and balance the claims of the various groups and accept responsibility to each interested group.

The third approach argues that corporate social responsibility is also action toward a "special problem" that is demanded by consumers or public opinion or both. This viewpoint is called the "quality of life" concept of social responsibility, and has become popular in recent years. [6] There are many reasons for the new social conscience which the public developed, but certainly one of the fundamental reasons was that American society had resolved most of its immediate problems arising from the depression of the 1930's, and was ready to move on to new ground. With economic problems partially out of the way, social problems became more visible. In essence, the great success of the American economic machine had created an affluence which released society from economic bondage and allowed it to turn to other challenges. The most visible challenges were the social issues such as urban blight, disadvantaged people, ecology, and equality of opportunity.

The Comparison of Managerial Values Table was developed by Hay and Gray.[7] It shows the differing ideologies of each managerial decision maker in the three concepts or styles of management which were previously discussed.

6 Committee for Economic Development. Social Responsibilities of Business Corporations. (New York: Research and Business Committee, CED, June, 1971).

7Hay, D. R., and E. R. Gray. "Social Responsibilities of Business Managers," Academy of Management Journal, 3, (March, 1974), p.3.

COMPARISON OF MANAGERIAL VALUES

| I.<br>Profit Maximizing<br>Management | II<br>Trusteeship<br>Management | III<br>Quality of Life<br>Management |
|---|---|---|
| | <u>Economic Values</u> | |
| (1)<br>Raw self-interest | (1)<br>Self-interest<br><br>(2)<br>Contributor's interests | (1)<br>Enlightened self-interest<br><br>(2)<br>Contributor's interests<br><br>(3)<br>Society's interests |
| "What's good for me is good for our country." | "What's good for my company is good for our country." | "What's good for society is good for our company." |
| Profit maximizer | Profit satisfier | Profit is necessary, but... |
| Money and wealth are most important. | Money is important but so are people. | People are more important than money. |
| "Let the buyer beware." (caveat emptor) | "Let's not cheat the customer." | "Let the seller beware." (caveat venditor) |
| "Labor is a commodity to be bought and sold." | "Labor has certain rights which must be recognized." | Employee dignity has to be satisfied." |
| Accountability of management is to the owners. | Accountability of management is to the owners and customers, employees, suppliers, other contributors. | Accountability of management is to the owners, contributors, and society. |

| I.<br>Profit Maximizing<br>Management | II<br>Trusteeship<br>Management | III<br>Quality of Life<br>Management |
|---|---|---|
| | Technological Values | |
| Technology is very important. | Technology is important, but so are people. | People are more important than technology. |
| "Employee personal problems must be left at home." | "We recognize that employees have needs beyond their economic needs." | "We hire the whole man." |
| "I'm a rugged individualist, and I'll manage the business." | "I am an individualist, but I recognize the value of group participation." | "Group participation is fundamental to our success." |
| "Minority groups are inferior to Whites." | "Minority groups have their place in society and their place is inferior to mine." | "Minority groups are people like you and me." |
| | Environmental Values | |
| "The natural environment controls the destiny of man." | "Man can control and manipulate his environment." | "Man must preserve the environment." |
| | Political Values | |
| "That government is best which governs least." | "Government is a necessary evil." | "Business and government must cooperate to solve society's problems." |
| | Aesthetic Values | |
| "Aesthetic values . . . what are they?" | "Aesthetic Values are okay, but not for us." | "We must preserve our aesthetic values and we'll do our part." |

## Pluralism and Social Responsibility

One of the most important factors influencing recent changes in ideological thinking has been the development of cultural pluralism in the United States. Davis and Blomstrom described a pluralistic society as one in which diverse groups and business act in reciprocity to each other. Business is influenced by groups as the groups are influenced by business:

> Unless businessmen understand the "rules of the game" by which pluralism operates, they are handicapped in their efforts to make business a responsible social institution.

In pluralism there are numerous economic, political, educational, social, artistic, and other groups organized by people to promote their welfare. When this particular line of thinking is applied to the business community, the forces consist of such subsets as consumers, suppliers, workers, stockholders, managers, government and the public itself. All of these groups can be brought together into four spheres of interacting influence: the public, the customer, the employee, and the government. These represent the basic groups to whom business has a social responsibility.

## Meaning of Social Responsibility

In 1975, the American Management Association conducted the largest known survey of American business executives on the subject of corporate social responsibillity. One of the most significant results of the survey was what seemed to be progress toward agreement on a definition of corporate social responsibility. Raymond Bauer of the Harvard School of Business suggested that the survey tested this definition of the term: Corporate social responsibility is seriously considering the impact of the company's action on society.

Social responsibility is concerned with the public interest. It is the obligation of decision makers to take actions which consider and improve the welfare of society as a whole along with protecting their own interests. All organizations, public and private, have social responsibility to improve the quality of public life. However, social responsibility has different meanings for different people and although public interest is a useful guide for responsible decision making, there is no exact way to determine what the "public interest" is, how to measure it, or how to serve it.

8 Davis, K., and R. L. Blomstrom. Business and Society: Environment and Responsibility. (New York: McGraw-Hill Book Company, 1975), p.62.

According to Karson, social responsibility is the commitment of the corporation, conscious of its interdependence with the community, to use its available resources in such a manner that they will impact positively on society. [9]

## To Whom Are Corporations Responsible?

There are many different groups that corporations have responsibilities toward, but the most important are: the public, the customer, the employee and the government. Air pollution control is one example. Each year, the nation has a larger number of people and a greater number of cars, power plants, and factories. Since the supply of air is constant, it is necessary that some kind of control over air pollution be established.

While the great success of American business has been built upon satisfying the customer, recent consumer movements have focused attention upon the fact that public expectations have not been met in all areas of business operation. What product gives the best value for the money? How reliable are claims made in the ads? How safe is the product? These are the questions to which corporations must address themselves if they want to meet some of their social responsibilities to the customer.

Satisfying employees has always been a major challenge for business. Employees want better working conditions, more money, freedom to carry out their jobs, and other benefits. It is not an easy task to maintain the right balance between employee needs and company efficiency. Thus, corporations have a social responsibility to temper the emphasis on profit with careful consideration of the needs of the employee.

There is a growing belief that social problems cannot be solved by any single social institution. Rather, solutions will come about only by institutions working together in partnership, each performing those functions which it is best equipped to perform. Government, by its very nature, should formulate social objectives. Business, on the other hand, should apply its management, techological, and research capabilities directly to achievement of social objectives and to helping government better perform its own functions.

9 Karson, Conference on Labor Management and Public Interest, 1975.

As American society becomes more complex, it seems clear that national economic performance depends upon both a strong government sector and a strong business sector. If complex social and economic problems are to be met and solved, greater trust, understanding, and cooperation will be needed between business and government, as well as between other social institutions. At the present time, there are a host of laws designed to regulate business conduct, ranging from the Clayton Act to the Civil Rights Act. Government guidelines are continually changing, depending upon the needs and desires of the general public.

Stockholders form another group that corporations have responsibility toward, but there is no evidence indicating that business is failing to meet its obligations to this group. As George Steiner stated:

> Managers of large corporations consider their companies to be predominately economic institutions operated for owners. The fact that the managers themselves often own a comparatively small amount of the stock does not mean they may not act as managers–owners. They generally do, because their personal fortunes are tied to their shareholdings. In addition, the internal decision making of most companies is geared rather rigorously to a return–on investment criterion. Consideration for the customer works in the interests of stockholders when managers seek to determine what consumers want and to satisfy their needs at a profit . . . . Similarly, the costs of helping employees to lead more satisfying lives might be offset by added profits growing from loyalty, imagination, and motivation.

Stockholders may suffer if a company overemphasizes its social responsibility, but this seldom is the case as Steiner points out:

> The assumption of social responsibilities is more of an attitude, of the way a manager approaches his decision–making task, than a great shift in the economics of decision–making. It is a philosophy that looks at the social interest and the elightened self–interest of business over the long–run as compared with the old narrow, unrestrained short–run self–interest.

10
Steiner, Business and Society, p. 135.

11
Ibid., p 164.

## Enlightened Self–Interest

The modern professional manager's beliefs and attitudes were shown in the table of comparison of managerial values. The modern manager believes in enlighteded self–interest. As Hay and Gray[12] noted, enlightened self–interest is the major intellectual concept used to convince managers who lean toward profit maximizing values that they must be aware of and consider the needs and goals of society in their internal decision processes. Enlightened self–interest may be broadly described as an action by a firm which cannot be clearly justified on the basis of cost and revenue projections, but is taken because it is believed to be the best interests of the firm in the long–run. Enlightened self–interest has both positive and negative aspects. There is the positive appeal presented through greater opportunities to grow and profit in a healthy, prosperous, and well–functioning society. However, there is also the negative threat of increasingly onerous compulsion and harrassment if a corporation does not contribute in helping such a society.

## Social Responsibility and Social Power

Businessmen have much social power, a statement that most people agree. Government seeks counsel from them, and whatever they do and say influences their community. Most power exercised by business is functional power. As Davis and Blomstrom[13] explained, the power granted to business by society is generally sufficient to perform the functions which society expects of it. The businessman deals with other persons in functional roles such as employee, customer, and vendor, not as having the power of control. There is, consequently, much pressure to keep power with reasonable bounds. In this instance, reasonable power is defined as the minimum power needed to perform an appropriate function.

12 Hay and Gray. Social Responsibilities of Business Managers, 1974.

13 Davis and Blomstrom, Business and Society: Environment and Responsibility, 1975.

There are valid reasons for matching social responsibility with social power, as stated by Taylor:

> The demand of the law in a well–ordered society is that responsibility shall lie where the power of decision lies. Where that demand is met, men have a legal order; where it is not, they have only the illusion of one. [14]

The Iron Law Responsibility is: In the long run, those who do not use power in a manner which society considers responsible will tend to lose it. Davis and Blomstrom[15] argued that the "no responsibility and the total responsibility" doctrines are equally false. According to the first doctrine, business keeps its power, but accepts no responsibility, thereby unbalancing the power–responsibility equation. According to the second concept, responsibility far exceeds power, again unbalancing the equation.

## Arguments For and Against Social Responsibility

During recent years, there have been many sound arguments for and against the idea of corporate social responsibilities. Some of the most cogent arguments for social responsibility discussed here are: long–run self–interest, public image, avoidance of government regulation, sociocultural norms, stockholder interest, and predictive prevention.

Of the many arguments favoring social responsibility in the literature, the most prevalent is that which supports the long–run self–interest of business. This concept rationalizes that society expects business to contribute to the social good if it expects to profit in the long run. This argument is actually a sophisticated concept of long–run profit maximization. Spending money for social programs will actually result in more profit for business, since this is the normal result of better community and better society which these programs bring. Therefore, the firm which does not contribute to social good will be inviting lower profits some time in the future.

14 Taylor, F. J. 1965. "Is the Corporation above the Law?", Harvard Business Review, (March–April, 1965), p. 126-

15 Davis and Blomstrom, Business and Society: Environment and Responsibility, p.49.

Strong responsibility programs improve the public image of business. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, and other benefits.

Social responsibility avoids regulation by government. Regulations are costly to business and restrict the flexibility of decision–making.

The businessman operates under a set of cultural constraints in the same way that any other person in society. Research suggests these cultural norms are powerful determinants of behavior. If society moves toward norms of social responsibility, as it is now doing, then the businessman is subtly and inevitably guided by these same norms.

One other argument for social responsibility is that is in the interest of stockholders for business to engage in certain kinds of responsible behavior. Wallich and McGowan[16] showed how diversification of ownership portfolios radically alters the interest of the stockholders. Corporate activities which would not be worthwhile to a stockholder in a single firm definitely become worthwhile to a diversified stockholder. He showed that types of responsible behavior which bring returns to the corporate sector as a whole, actually operate to the benefit of the holder of a diversified portfolio. Therefore, failure to be responsible deprives stockholders of returns they might otherwise enjoy.

Since businesses have valuable resources which can be applied to social problems, society should use these resources. These include management talent, functional expertise, and capital resources. Business is known also for its innovative capability. Perhaps some of these attributes could be applied to social problems where innovation is sorely needed.

The last point regarding social responsibility is that prevention is better than cure. The argument suggests that it is actually more economical to deal with social problems before they develop into serious disorders and consume even more of management's time.

16
Wallich, C. H., and J. J. McGowan. "Stockholder Interest and the Corporation's Role in Social Policy," in W. J. Baumol et al., ed., A New Rationale for Corporate Social Policy. (New York: CED, 1970), pp.39-59.

Some of the most important arguments against social responsibility are: limitation of the profit maximization; the costs of social involvement; lack of management's social skills; business's possession of too much power; lack of accountability; and dilution of business's primary purpose.

The classic economic doctrine of profit maximization presented by Adam Smith in 1776 has influenced economic thinking ever since. It explains that businesspersons perform a social good when they improve efficiency and reduce costs in order to maximize profit. Economist Milton Friedman argued that the concept of social responsibility embodies a fundamental contradiction, and will, if implemented, erode the foundations of the free enterprise system, and grossly diminish its ability to contribute to economic growth. In an interview publiched in Business and Society Review, he maintained that corporate executuves, as representatives of business, do not have responsibilities other than to make as much money for their stockholders as possible. He contended that spending money in a way that is not in the best interests of the shareholders is irresponsible. He explained, "The crucial question is: What right does the executive have to spend his stockholders' money?"

Despite the fact that business has very substantial economic resources, it must use them carefully because those resources will quickly dwindle into economic impotence unless they are self-renewing. Thus, business cannot commit major economic resources for social responsibility unless the costs of these resources are paid by government or other institutions. As a matter of fact, these additional costs will drive marginal firms out of existence.

Many businessmen may lack the perceptions and skills necessary to work effectively with social issues. There are some questions that proponents of social responsibility programs in business ask. If society is going to depend on someone to work with social problems, why choose a group which is so poorly qualified? Does society really want economic and technical people meddling in social affairs? Can business really do the job? Is it better equipped than government and other institutions?

17
Friedman, Milton. "Milton Friedman Responds," Business and Society Review, (Spring, 1972), pp.6-7.

Business already has all the power society can wisely allow it to have. This is another agrument against social responsibility. Critics argue that society does not want business to be a giant social institution which towers over all other private institutions. An excessive concentration of power would threaten the pluralistic division of powers which exists among institutions and reduce the viability of a free society.

Another argument is that until society can develop mechanisms which establish direct lines of social accountability, business must stand clear of social activities and pursue only its goal of profit for which it is directly accountable to the market system.

The involvement in social goals might dilute business's emphasis on economic productivity, divide the interests of its leaders, and weaken business in the marketplace, with the result that it would accomplish poorly both its economic and its social roles.

Also it is argued that there is a risk of reducing the public image of business. Failure in either the economic or social areas will hurt the public image of business.

## Social Auditing

In very recent years the idea of a corporate social audit has caught the attention of those who study business and economics. A great number of companies, especially the large ones, are trying, or thinking of trying, a social audit.

The mission of the social audit, as Dr. Clark C. Abt described it, is to provide more objective, accurate, and comprehensive information about an organization's social performance than is usually compiled.[18] The term has been applied indiscriminately to a wide range of activities. Blake, Frederick, and Myers categorized these activities into practices such as: inventories of social programs and social impacts of a company; the cost estimates of socially significant activities; governmentally required survey results of pollution, discrimination and safety practices; external survey results such as sexual discrimination, study of attitudes of interest groups such as stockholders customers, and employees; and other social audit efforts.[19]

18 Abt, C. Clark 1977. The Social Audit of Management. (New York: AMACOM, 1977).

19 Blake, Frederick and Myers, Social Auditing: Evaluating the Impact of Corporate Programs, 1976.

Despite the remarkably thin literature on the subject of social audit, there are several definitions of the term.

Bauer and Fenn put it this way: "a commitment to systematic assessment of and reporting on some meaningful, definable domain of a company's activities that have social impact." [20]

There are several different types of social audits that have been either proposed or put into actual practice. Clark Abt made a special kind of audit for his own firm, which became a public document included in the firm's annual reports. The company is a management consulting firm called Abt Associates. It is an effort to represent, in purely dollar terms, the company's social assets and liabilities. In the 1971 annual report of the firm, Abt reported:

> The basic concept used in the Social Audit to measure social benefits and costs to employees, communities, clients, and the general public is adopted from accounting practice. . . . This practice assumes all social impacts . . . can be expressed in terms of the money the people concerned have actually paid for the benefits or services, and what they have actually paid to avoid equivalent costs. [21]

This kind of social audit is called the social balance sheet and income statement.

The other type of social audit is social performance audit. The Council on Economic Priorities (CEP) and the Interfaith Center on Corporate Responsibility (ICCR) have done such social audits. The social audits undertaken by CEP consist of research–based studies of the performance of selected companies in given industries with respect to some particular areas of social or public concern. CEP studies are usually negatively critical of industries' performances and are undertaken either with or without the cooperation of the companies being audited. Extensive use is make of data from governmental agencies, particularly where companies refuse to give information about company performance.

Another type of social audit, called constituency group attitudes audit, is an analytic measurement of the attitudes and preferences of groups affected by corporate actions regarding various areas and issues of social concern. This is usually done by consultant firms and internally by company staff.

20 Bauer, A. R., and D. H. Fenn, Jr. 1973. "What is a Corporate Social Audit," Harvard Business Review, (January–February, 1973), p.51.

21 Abt, The Social Audit for Management, p.9.

In recent years, another kind of social audit has been employed by various agencies of the federal government. These agencies include the Environmental Protection Agency (EPA), the Equal Employment Opportunity Commission (EEOC), the Occupational Safely and Health Administration (OSHA), and others. Their audits focus upon some particular area of social concern that has been specified in legislation, executive orders, or court decisions as deserving of governmental surveillance, monitoring, and enforcement. These government–mandated audits describe, usually in numerical and statistical terms, prevailing patterns of pollution, discrimination, or industrial accidents and casualities.

Today, a great amount of interest and activity about thesocial audit process is found in American corporations, especially among the larger ones. In a study undertaken by the Committee for Economic Development in 1974, each corporation in the study was asked why it had undertaken to assess and, in some instances, to report on its performance of social activities.

A questionnaire was sent to 750 large corporations, and usable replies were received from 284 companies. Review of the summary shows that the main reasons corporations had undertaken social audits were, "to examine what the company is actually doing" and "to appraise or evaluate performance in selected areas."

In the same study, a question was asked about the future of social auditing. The question was: "In general, do you think that business firms will be required to make a social audit in the future?" Of all respondents, 46 percent answered "yes" to this question. As David Rockefeller stated:

> Because of the growing pressure for greater corporate accountability, I can foresee the day when – in addition to the annual financial statements – corporations may be required to publish a social audit, certified by independent accountants. [22]

22 Rockefeller, David, Address to the Advertising Council, reported in the Los Angeles Times, January 3, 1971.

## Future of Corporations

In 1975, the American Management Association (AMA) did the largest known survey of American business executives on the subject of corporate social responsibility. The American Management Association mailed questionnaires to some 4,820 corporate presidents across the country in March and April, and 644 usable replies were generated. The key question in this survey was a request for reflection and response to a theme sounded in a speech made in late 1974 by Reginald H. Jones, chairman and chief executive officer of General Electric Company.

In a speech delivered at the Detroit Economic Club, Jones stated:

> It seems to me that we have reason to be concerned whether the corporation as we know it . . . will survive into the next century. Great social and institutional changes are taking place that will necessarily affect the corporation, and especially the larger firms that are the core of our nation's industrial system . . . this means that the corporation itself must change, consciously evolving into an institution adapted to the new environment. [23]

The responding executives seemed to agree with Jones, but were less optimistic about things turning out the way they would prefer. The American Management Association reported that large companies (5,000 or more employees) felt more confident than smaller ones that the current system can adapt to new and emerging social pressures. The following are some of the president's thoughts which were reported by the American Management Association:

> The corporation has gone through several basic stages of evolution – the era of trustbusting and new deal regulatory period among them – and has adapted successfully as soon as the new "ground rules" become clear in each case.
>
> We are drifting into socialistic modes and will have much nationally controlled (by government) industries.
>
> We must achieve better public understanding of our business – particularly a better appreciation of how well we are serving.
>
> I feel that we may move toward broader ownership of the corporation. Also, I am more certain we will see more "participative management" or more involvement of employees in the decision–making process of the corporation. [24]

23 Jones, R. H. 1974, Speech delivered at Detroit Economic Club, Detroit, Michigan, November 25, 1974.

24 American Management Association. "The Future of the Corporations," In L. J. Paluszek, Business and and Society: 1976 - 2000, (New York: AMACOM, 1976), pp.6-9.

In the American Management Association survey, American business executives seemed to be saying society is giving us some tough new ground rules on how to run our businesses. We may not like them, but we will meet them.

Social Responsibility versus Profit for the Company

A study conducted by two Ohio State University researchers, Frederick D. Sturdivant and James L. Ginter concluded that there is, indeed, a relationship between social and economic performance. Discussing their results, Sturdivant and Ginter concluded:

> While the findings certainly will not support the argument that socially responsive companies will always outperform less responsive firms in the long run, there is evidence that, in general, the responsively managed firms will enjoy better economic performance. [25]

The companies studied by Sturdivant and Ginter were from 67 firms that previously had been ranked in the Journal of Business and Society as best, honorable mention, and worst in their responses to questions about social issues and problems. The primary purpose of the study was to explore the relationship between corporate social performance as perceived by an external evaluator and the values and attitudes as expressed by top management. In connection with this objective, however, it was also decided to investigate a second relationship – social versus economic performance. The study was based on data obtained from questionnaires returned by 130 executives at 23 of the 67 companies on the Business and Society list.

The results indicated a clear pattern of attitude differences between executives of the three categories of companies. Managers of the "best" companies showed a greater concern for people in general and were more positive in their attitudes toward minority groups and social change. The managers of "worst" companies were generally negative toward minority groups and human relations. Concluding that major policies and corporate practices and policies are shaped by a small number of top managers, the researchers were able to report that companies do tend to reflect the thinking and social values of their executives. As for economic relationship, Sturdivant and Ginter wrote:

[25] Sturdivant, D. G., and J. L. Ginter. "Social Responsibility vs. Profit for the Company," California Management Review, (Spring, 1977), p.23.

> Clearly there are numerous factors affecting a firm's economic performance, and its social responsiveness is, it might be assumed, a long-run influence. In the short run, competitive actions, the money market, resource shortages, or the vicissitudes of the stock market might be expected to overwhelm any possible economic influence of good or bad social conduct. [26]

## Conclusions

As was shown in the literature, a company's goals and aspirations with regard to corporate citizenship are intricately involved with its opportunity costs and resource constraints. A company's standards may be based on its own feelings regarding appropriate behavior, top management desires, its own past practices and experience, or any combination of these. These internally generated standards tend to lack objectivity and may be set lower than emerging social expectations. This, then, brings up the question of who is paying for all the company's social responsibility programs. In terms of a Milton Friedman approach, either the cost of the product is raised, or the shareholders, taxpayers (through less contributions) or employees bear the burden.

Of the many arguments favoring social responsibility in the literature, the most prevalent was that society expects business to be aware of and consider the needs and goals of society in their internal decision processes if it expects to profit in the long run.

This argument is actually a sophisticated concept of long-run profit maximization. Spending money for social programs will actually result in more profit for the business, since this is the normal result of the better community and society which these programs bring. Truly low-cost production in the long run depends on the accomplishment of these social programs; therefore, the firm which does not contribute to them will be inviting lower profits some time in the future.

[26] Sturdivant and Ginter, Social Responsibility vs. Profit for the Company, p.24.

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